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UNITED STATES POSTAL SERVICE



**UNITED STATES
POSTAL SERVICE®**

Fiscal Year 2002 Budget Congressional Submission

Finance

Budget and Financial Analysis

**U.S. POSTAL SERVICE
FY 2002 BUDGET**

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U. S. POSTAL SERVICE

**FISCAL YEAR 2002 BUDGET
PART I
APPROPRIATION REQUEST**

U.S. POSTAL SERVICE

Appropriations

The following schedules reflect the Postal Service's budget for Fiscal Year 2002. Funding requested reflects the amounts authorized in title 39, United States Code, §2401.

Revenue Forgone

The Postal Service is requesting funding in Fiscal Year 2002 for revenue forgone on free mail for the blind and overseas voting, plus reconciliation amounts for past years, consistent with 39 U.S.C. §2401(c).

Revenue Forgone Reform Reimbursement

The Postal Service requests funding authorized under 39 U.S.C. §2401 (d) as reimbursement for losses incurred as a result of insufficient appropriations in Fiscal years 1991 through 1993, and to compensate for revenues not received as a result of the rate phasing provisions of 39 U.S.C. §3626 (a) (3) (B).

Public Service Costs

For public service costs, 39 U.S.C. §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department's Fiscal Year 1971 appropriation. This amounts to \$460,000,000. Also, section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero. Since the Postal Service has operated without this appropriation since Fiscal Year 1982, no appropriation for public service costs is requested during Fiscal Year 2002.

The following schedule provides a summary of the appropriations requested and recommended level of funding.

U.S. POSTAL SERVICE
Appropriations Summary
(in thousands of dollars)

	Public Service Costs	Revenue Forgone	POD Transitional Costs	Total
<u>FY 2000:</u>				
USPS Request	93,436	...	93,436
OMB Proposal	93,436	...	93,436
Postal Service Appropriations Act, 2000 -- Public Law No. 106-058 :				
Available October 1, 1999	29,000	...	29,000 a/
Available October 1, 2000	64,436	...	64,436 b/
<u>FY 2001:</u>				
USPS Request	96,093	...	96,093
OMB Proposal	96,093	...	96,093
Postal Service Appropriations Act, 2001 -- Public Law No. 106-554 :				
Available, October 1, 2000	29,000	...	29,000 b/
Available, October 1, 2001	67,093	...	67,093
<u>FY 2002:</u>				
USPS Request	76,729 c/	...	76,729 c/
OMB Proposal	76,619	...	76,619

a/ Does not reflect 0.38 percent rescission authorized by the Consolidated Appropriations Act for 2000 (*P.L. 106-113*).

b/ Does not reflect 0.22 percent rescission authorized by the Consolidated Appropriations Act for 2001 (*P.L. 106-554*).

c/ Includes \$110 thousand for repayment of amount rescinded by P. L. 106-113 in FY 2000.

U.S. POSTAL SERVICE
Appropriations Summary
(In thousands of dollars)

	FY 2000			FY 2001			FY 2002	
	Request	OMB Proposal	Appropriated P.L. 106-058	Request	OMB Proposal	Appropriated P.L. 106-554	Request	OMB Proposal
A. Total budget authority (appropriations).....	93,436	93,436	a/ 93,436	96,093	96,093	c/ 96,093	76,729	76,619
B. Program by activities:								
1. Public service costs .....	...	...	...	...	...	...	...	...
2. Free for the Blind and Overseas Voting	70,880	70,880	a/d/ 70,880	66,473	66,473	c/ 66,473	56,303	56,303
3. Free and reduced-rate mail: reconciliation adjustment.....	- 6,444	- 6,444	a/d/ - 6,444	620	620	c/ 620	- 8,684	- 8,684
4. Revenue forgone reform reimbursement.....	29,000	29,000	b/ 29,000	29,000	29,000	d/ 29,000	e/ 29,110	29,000
5. Non-funded liabilities of the former POD .....	...	...	...	...	...	...	...	...
Total appropriations	93,436	93,436	a/ 93,436	96,093	96,093	c/ 96,093	76,729	76,619

a/ Includes \$64,436 thousand, not available until October 1, 2000.

b/ Does not reflect 0.38 percent rescission authorized by the Consolidated Appropriations Act for 2000 (P.L. 106-113).

c/ Includes \$67,093 thousand, not available until October 1, 2001.

d/ Does not reflect 0.22 percent rescission authorized by the Consolidated Appropriations Act for 2001 (P.L. 106-554).

e/ Includes \$110 thousand for repayment of amount rescinded by P. L. 106-113 in FY 2000.

U.S. POSTAL SERVICE

Federal Funds

General and special funds:

Payment to the Postal Service Fund

For payment to the Postal Service Fund for current revenue forgone on free and reduced-rate mail for the blind and overseas voting, plus reconciliation amounts for past years pursuant to subsection 39 U.S.C. §2401(c); \$47,619,000.

For payment to the Postal Service Fund for reimbursement of losses incurred as a result of insufficient appropriations for revenue forgone on free and reduced-rate mail pursuant to 39 U.S.C. §2401(d); \$29,110,000.

Program and Financing (in thousands of dollars)				
	FY 2000	FY 2001	FY 2002	
	Actual	Estimate	Request	OMB Proposal
Program by activities:				
Payment to the Postal Service fund for:				
Revenue forgone on free and reduced-rate mail:				
Current year.....	70,880	66,473	56,303	56,303
Reconciliation adjustment	- 6,444	620	- 8,684	- 8,684
Subtotal.....	64,436	67,093	47,619	47,619
Revenue forgone reform reimbursement:.....	29,000	29,000	29,110	29,000
Subtotal , free and reduced-rate mail.....	93,436	96,093	76,729	76,619
Total payment to the Postal Service Fund (total obligations(41.0)).....	93,436	96,093	76,729	76,619
Financing:				
Budget authority (appropriations)	93,436	96,093	76,729	76,619

a/ Includes \$64,436 thousand not available until October 1, 2000.

b/ Does not reflect 0.38 percent rescission authorized by the Consolidated Appropriations Act for 2000. (P.L. 106-113)

c/ Does not reflect 0.22 percent rescission authorized by the Consolidated Appropriations Act for 2001. (P.L. 106-554)

d/ Includes \$67,093 thousand not available until October 1, 2001.

e/ Includes \$110 thousand for repayment of amount rescinded by P. L. 106-113 in FY 2000.

U. S. POSTAL SERVICE APPROPRIATIONS

Justifications

a. FY 2002 Appropriation request for Free for the Blind and Overseas Voting mail, \$56,303,000:

(in thousands of dollars)

ITEM	FY 2000	FY 2001		FY 2002	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
A. Free for the Blind	69,682	65,932	- 3,750	56,132	- 9,800
B. Overseas Voting	1,198	541	- 657	171	- 370
Total, Free for the Blind and Overseas Voting	70,880	66,473	- 4,407	56,303	- 10,170

An appropriation of \$56,303,000 is requested for free mail for the blind and overseas voting which provides funding for:

Certain matter for use by the blind or other persons who cannot use or read conventionally printed materials because of physical impairment can be mailed free of postage. In order to qualify, there must be no charge, rental, subscription, or other fee required for such matter.

Items mailable free by a qualifying person include unsealed letters, sound reproductions, Braille writers or typewriters, and educational or other materials or devices specifically designed or adapted for use of a visually handicapped person.

Absentee balloting materials can be mailed free by members of the Armed Forces and other U.S. citizens residing outside the territorial limits of the United States, and in bulk between state and local election officials.

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

b. Reconciliation Adjustment, Revenue Forgone:

(in thousands of dollars)

ITEM	FY 2000	FY 2001		FY 2002	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
Reconciliation adjustment	- 6,444	620	7,064	- 8,684	- 9,304

Under 39 U.S.C. §2401(c) the Postal Service continues to be instructed to include in its annual revenue forgone funding requests "an amount to reconcile sums authorized to be appropriated for prior fiscal years on the basis of estimated mail volume with sums which would have been authorized if based on the final audited mail volume." This instruction to seek reconciliation adjustments was not changed by section 703(a) of the Revenue Forgone Reform Act (RFRA) of 1993, which eliminated the appropriation for the revenue forgone on the various types of reduced-rate mail provided under section 3626 of title 39 (while keeping the funding mechanism for free mail for the blind and overseas voting intact).

U. S. POSTAL SERVICE APPROPRIATIONS

Justifications - Cont'd

The Postal Service, in accordance with the objectives established in the Postal Reorganization Act by the Congress, is therefore submitting a reconciliation adjustment of - \$8,684,000 to adjust the reimbursement for services performed on Free for the Blind and Overseas Voting mail during Fiscal Year 1999. The amounts appropriated to the Postal Service for Fiscal Year 1999 were based on estimates that appropriations amounting to \$68,440,000 would be required for free for the blind and overseas voting mail. However, audited mail volumes indicate that \$59,756,000 was actually required to fully reimburse the Postal Service for services provided - leaving an excess of \$8,684,000 which is returned to the Government in the Postal Service's Fiscal Year 2002 appropriation request.

(in thousands of dollars)

	Free for the Blind	Overseas Voting	Reduced- rate Mail	Total	Reconciliation Adjustment
<u>FY 1997:</u>					
Based Upon Final Audited Mail Volume.....	54,366	623	...	54,989	
Appropriation Received.....	60,663	770	...	61,433	
Reconciliation Adjustment - Funded in FY 2000.....	- 6,297	- 147	...	----- >	- 6,444
<u>FY 1998:</u>					
Based Upon Final Audited Mail Volume.....	55,746	170	...	55,916	
Appropriation Received.....	55,026	270	...	55,296	
Reconciliation Adjustment - FY 2001 request.....	720	-100	...	----- >	620
<u>FY 1999:</u>					
Based Upon Final Audited Mail Volume.....	59,608	148	...	59,756	
Appropriation Received a/	68,368	72	...	68,440	
Reconciliation Adjustment - FY 2002 request.....	- 8,760	76	...	----- >	- 8,684

a/ Received Oct. 1, 1999. Reflects 0.38% rescission authorized by the Consolidated Appropriations Act for 2000, (P. L. 106-113).

U. S. POSTAL SERVICE APPROPRIATIONS

Justifications - Cont'd

FY 2002 Appropriation Request for revenue forgone reform reimbursement, \$29,110,000:

(in thousands of dollars)

ITEM	FY 2000	FY 2001		FY 2002	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
Revenue Forgone Reform Reimbursements	28,890	29,000	110	29,110	110
Total	28,890	29,000	110	29,110	110

An appropriation of \$29,110,000 is requested for revenue forgone reform reimbursement to provide partial reimbursement to the Postal Service for losses which it incurred as a result of insufficient amounts appropriated under section §2401(c) for Fiscal Years 1991 through 1993, and to compensate for the additional revenues it is estimated the Postal Service would have received under the provisions of section §3626(a) for the period beginning on October 1, 1993, and ending on September 30, 1998, if the fraction specified in subclause (VI) of section §3626(a)(3)(B)(ii) were applied with respect to such period instead of the respective fractions specified in subclauses (I) through (V) thereof. This request also includes \$110,000 as reimbursement for funds rescinded in FY2000 by the Consolidated Appropriations Act for 2000.

The Revenue Forgone Reform Act of 1993 authorizes \$29,000,000 to be appropriated to the Postal Service for each of Fiscal Years 1994 through 2035. As of September 30, 2002, \$957,000,000 of the total authorized amount will remain to be requested.

U. S. POSTAL SERVICE

FISCAL YEAR 2002 BUDGET PART II FINANCIAL STATEMENTS

U.S. POSTAL SERVICE

The Postal Reorganization Act of 1970 (PRA), Public Law 91-375, converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. The Postal Service commenced operations July 1, 1971. This agency is charged with providing reliable mail service at reasonable rates and fees.

The U.S. Postal Service is governed by an 11-member Board of Governors, including 9 Governors appointed by the President, the Postmaster General who is selected by the Governors, and the Deputy Postmaster General who is selected by the Governors and the Postmaster General.

Decisions on changes in domestic rates and postage and fees for postal services are recommended to the Governors of the Postal Service by the independent Postal Rate Commission after a hearing on the record under the Administrative Procedure Act. The Commission also recommends decisions on changes in the domestic mail classification schedule to the Governors. Decisions of the Governors on rates of postage, fees for postal services, and mail classification are final, subject to judicial review.

Programs - Included are all postal activities providing window services; processing, delivery, and transportation of mail; research and development; administration of postal field activities; and associated expenses of providing facilities and equipment.

Financing - The activities of the U.S. Postal Service are financed from the following sources: (1) mail and services revenue; (2) reimbursements from Federal and non-Federal sources; (3) proceeds from borrowing; (4) interest from U.S. securities and other investments; and (5) appropriations by the Congress. All receipts and deposits are made to the Postal Service Fund and are available without fiscal year limitation for payment of all expenses incurred, retirement of obligations, investment in capital assets, and investment in obligations and securities.

U.S. POSTAL SERVICE

Section 2005 of Title 39, United States Code, authorizes the Postal Service to borrow money and to issue obligations for this purpose. Through the end of Fiscal Year 1990, the aggregate amount of such obligations outstanding at any one time was limited to \$10 billion. This maximum amount was increased to \$12.5 billion in Fiscal Year 1991 and to \$15.0 billion for Fiscal Year 1992 and each fiscal year thereafter. Also beginning in Fiscal Year 1991, the net increase in amounts outstanding in any year may not exceed \$2.0 billion in obligations issued for the purpose of capital improvements and \$1.0 billion for the purpose of defraying operating expenses. As of September 30, 2002, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to \$15.0 billion.

The PRA created an independent Postal Service with a mandate to operate in a business-like manner and to report its finances using business-like accounting and budgeting. As a result, the Postal Service adopted an accrual accounting system, which follows generally accepted accounting principles, in which capital expenditures are charged to expense through depreciation over an asset's useful life. This provides an allocation of costs to the years in which an asset's benefits are received. A cash accounting approach, as used by the Federal Government, ignores the fact that valuable assets are acquired by the Postal Service and funded through postage rates set to recover the cost of those assets over their useful lives rather than in one year. Consistent with the purpose of the Act, the Office of Management and Budget (OMB) removed all Postal Service financial transactions except those involving appropriations, such as the revenue forgone payments for free and reduced-rate mail, from the Federal Government's budget and deficit calculations in Fiscal Year 1974. This action placed the Postal Service off-budget.

However, with the Fiscal Year 1986 Federal Budget, OMB placed the Postal Service back on-budget. As a result, the way capital expenditures are treated under the government's cash-basis system improperly made it appear that the "break-even" mandate of the Postal Service consistently adds to the Federal deficit in the near-term.

Enactment of the Budget Reconciliation Act of 1989 once again placed the Postal Service Fund off-budget. Effective with Fiscal Year 1990, receipts and disbursements of the Postal Service Fund are not considered as part of the congressional and executive budget process relating to calculations under the Balanced Budget and Emergency Deficit Control Act of 1985.

U.S. POSTAL SERVICE

Omnibus Budget Reconciliation Act of 1987 (OBRA of 1987)

The OBRA of 1987 required the Postal Service to make payments of \$350 million to the Civil Service Retirement and Disability Fund and \$160 million to the Employees Health Benefits Fund in Fiscal Year 1988. Also required was a \$270 million payment in 1989 to the Employees Health Benefits Fund. Funds for the 1988 and 1989 health benefit payments were derived from operating budget savings. An escrow account was also established with the U.S. Treasury into which the Postal Service deposited \$465 million on October 31, 1988. The escrow was terminated and the funds returned on October 1, 1989. Excluding the temporarily escrowed funds, this legislation required Postal Service payments totalling \$780 million during 1988 and 1989.

The Act also limited Postal Service capital investment commitments to \$625 million in Fiscal Year 1988. Compared to the original Fiscal Year 1988 capital investment plan, these restrictions reduced Fiscal Year 1988 capital commitments by \$1.736 billion for a 74 percent reduction. The Act also limited Fiscal Year 1989 capital commitments to \$1.995 billion, a reduction of \$635 million or 24 percent from the original plan.

Omnibus Budget Reconciliation Act of 1989 (OBRA of 1989)

The OBRA of 1989 included several provisions affecting the Postal Service's budget for 1990 and the budgets of future years.

The OBRA of 1989 placed the Postal Service Fund off budget effective in Fiscal Year 1990. It excludes postal receipts and disbursements from the totals in the President's Budget, the Congressional Budget Resolution and Gramm-Rudman-Hollings Act sequestration. Appropriations to USPS remain on-budget.

Payments to the Department of Labor for USPS workers' compensation are accelerated. Beginning in September 1990, all future payments normally due in mid-October will be made during the preceding September. This change resulted in two payments during Fiscal Year 1990 and will cause all subsequent payments to be advanced one fiscal year. The OBRA of 1989 made USPS liable for CSRS COLA payments to USPS annuitants (or their survivors) who retire from USPS after 9/30/86. It also made USPS liable for the employer's share of health benefits costs of survivors of former USPS employees who died after 9/30/86.

U.S. POSTAL SERVICE

Debt Ceiling Legislation

Legislation enacted December 12, 1989, also increased Postal Service borrowing authority. The following changes have been made to Postal Service statutory borrowing authority:

- o The maximum total outstanding borrowing was increased from \$10.0 billion to \$12.5 billion in Fiscal Year 1991 and to \$15.0 billion for Fiscal Year 1992 and each fiscal year thereafter.
- o The maximum annual net increase in obligations outstanding for capital improvements was increased to \$2.0 billion.
- o The maximum annual net increase in obligations outstanding for operating expenses was increased to \$1.0 billion.

Omnibus Budget Reconciliation Act of 1990 (OBRA of 1990)

The OBRA of 1990 affected the Postal Service as follows:

- o Existing laws which required the Postal Service to fund Civil Service Retirement System (CSRS) cost-of-living adjustments (COLA) and Federal Employees Health Benefit Program (FEHBP) premiums only for postal annuitants who retired after September 30, 1986, and their survivors, were rescinded.
- o Effective October 1, 1990, the Postal Service is required to fund the CSRS COLAs for postal annuitants who retired after June 30, 1971, and their survivors. Each year's liability will be prorated and the Postal Service's portion will reflect only Federal civilian employment service occurring after June 30, 1971. This liability will be amortized over 15 years at 5 percent interest.

U.S. POSTAL SERVICE

OBRA of 1990 – cont'd

- o Effective October 1, 1990, the Postal Service is required to fund the employer's share of FEHBP insurance premiums for postal annuitants who retired after June 30, 1971, and their survivors. These costs are apportioned and the Postal Service's share reflects only Federal civilian employment service occurring after June 30, 1971.
- o The Postal Service is liable for the retroactive CSRS COLA and FEHBP premium payments that would have been required between July 1, 1971, and September 30, 1986, if the provisions described previously had been in effect since July 1, 1971. This retroactive liability was reduced by \$780 million representing the extraordinary Postal Service payments required by the Omnibus Budget Reconciliation Act of 1987 and the remaining balance was liquidated during FYs 1991-1995.
- o Several reforms to the FEHBP were included to help control FEHBP premium increases beginning in FY 1991.

Omnibus Budget Reconciliation Act of 1993 (OBRA of 1993)

The OBRA of 1993 obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The OBRA 1993 assessment represents interest at 5 percent on the employer's portion of annuitant COLAs and health benefits previously paid by the U. S. Government that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971 through September 30, 1986. This interest assessment, totaling \$1.041 billion, was paid in three equal annual installments beginning September 30, 1996.

U.S. POSTAL SERVICE

Balanced Budget Act of 1997

Under the Postal Reorganization Act of 1971, the U.S. Government remained responsible for payment of all Post Office Department workers' compensation claims incurred before July 1, 1971. This Act required that the newly created Postal Service be responsible only for its own workers' compensation claims. However, the Balanced Budget Act of 1997 repealed the authorization for transitional appropriations to the Postal Service which had funded the liabilities of the former Post Office Department to the Employees' Compensation Fund. Effective October 1, 1997, these remaining claims became liabilities of the Postal Service payable out of the Postal Service Fund. At September 30, 1997, the discounted present value of these liabilities was estimated to total \$258 million.

The various OBRA's, described previously, and the Balanced Budget Act of 1997 have resulted in the cumulative total of \$16.7 billion in cost transfers to the Postal Service as of September 30, 2000.

The following Program and Financing Statement and Statement of Revenue and Expense reflect actual financial results for Fiscal Year 2000 and the Postal Service Forecasts for Fiscal Years 2001 and 2002.

**U.S. POSTAL SERVICE
PROGRAM AND FINANCING**
(in thousands of dollars)

ITEM	ACTUAL FY 2000	ESTIMATE FY 2001	ESTIMATE FY 2002
Obligations by Program Activity:			
Reimbursable Program:			
Postal Field Operations	45,405,000	47,096,000	48,000,000
Transportation	4,721,000	5,235,000	5,458,000
Building Occupancy	1,653,000	1,815,000	1,897,000
Supplies and Services	3,137,000	3,603,000	3,671,000
Research and Development	42,000	45,000	46,000
Administration and Area Operations	5,277,000	6,280,000	6,984,000
Interest	1,840,000	2,079,000	2,155,000
Servicewide Expenses	57,000	92,000	96,000
Capital Investments	3,011,000	2,675,000	2,407,000
Total New Obligations	65,143,000	68,920,000	70,714,000
Budgetary Resources Available for Obligation:			
New Budget Authority (gross)	68,293,000	71,271,000	70,714,000
Redemption of Debt	-3,150,000	-2,351,000	000
Total Budgetary Resources Available for Obligation	65,143,000	68,920,000	70,714,000
Total New Obligations	-65,143,000	-68,920,000	-70,714,000
New Budget Authority (gross)			
Authority to Borrow (indefinite)	3,712,000	4,840,000	2,519,000
Spending Authority from Offsetting Collections: Offsetting Collections	64,581,000	66,431,000	68,195,000
Total New Budget Authority (gross)	68,293,000	71,271,000	70,714,000

U.S. POSTAL SERVICE PROGRAM AND FINANCING

(in thousands of dollars)

ITEM	ACTUAL FY 2000	ESTIMATE FY 2001	ESTIMATE FY 2002
Change in Unpaid Obligations			
Unpaid Obligations, Start of Year:			
Obligated Balance Start of Year	22,107,000	20,640,000	20,533,000
Total new Obligations	65,143,000	68,920,000	70,714,000
Total outlays (gross)	-66,610,000	-69,027,000	-71,256,000
Unpaid Obligations, End of Year:			
Obligated Balance, End of Year	20,640,000	20,533,000	19,991,000
Outlays (gross) Detail:			
Outlays from New Permanent Authority	66,610,000	69,027,000	71,256,000
Offsets:			
Against Gross Budget Authority and Outlays			
Offsetting Collections from:			
Federal Sources	-1,011,000	-906,000	-950,000
Interest on U.S. Securities	-41,000	-27,000	-27,000
Non-Federal sources	-63,529,000	-65,498,000	-67,218,000
Total, Offsetting Collections	-64,581,000	-66,431,000	-68,195,000
Net budget Authority and Outlays:			
Budget Authority	3,712,000	4,840,000	2,519,000
Outlays	2,029,000	2,596,000	3,061,000

U.S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE
(in thousands of dollars)

	<u>ACTUAL</u> <u>FY 2000</u>	<u>ESTIMATE</u> <u>FY 2001</u>	<u>ESTIMATE</u> <u>FY 2002</u>
TOTAL REVENUES	64,581,000	66,431,000	68,195,000
TOTAL EXPENSES	64,780,000	68,931,000	71,195,000
NET INCOME, LOSS (-)	<u>-199,000</u>	<u>-2,500,000</u>	<u>-3,000,000</u>

Due to the recent slowing of the economy and the uncertainty associated with the length and severity of the slowdown, the Postal Service projects year-end losses, based on current rates, will be between \$2.0 and \$3.0 billion in FY 2001 and between \$2.5 and \$3.5 billion in FY 2002. For purposes of this submission, the mid-points of these net loss ranges have been used. Amounts estimated for capital investment obligations and outlays have not been approved by the Board of Governors.